

Message Text

CONFIDENTIAL

PAGE 01 LONDON 13638 01 OF 03 181856Z

43

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 EUR-08 EB-03 SP-02 L-01 NSC-05

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R 181832Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4915

INFO AMEMBASSY TEL AVIV

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 13638

LIMDIS

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: XGDS-1

TAGS: EFIN, IS, UK

SUBJECT: ISRAEL BRITISH BANK, LTD. (LONDON) FAILURE

REF: STATE 223937

SUMMARY: BANK OF ENGLAND AND BANK OF ISRAEL ARE DISCUS-
SING MEANS WHEREBY PARTIAL SETTLEMENT OF CREDITORS CLAIMS
MIGHT EVENTUALLY BE MADE. BANK OF ENGLAND REFUSED TO GO
INTO DETAILS. ASSETS ARE MISSING, WITH EVIDENCE OF FRAUD.
NO GROUNDS FOR OPTIMISM. UNLIKELY ANY RESCUE OPERATION
WILL YIELD FULL RETURN TO CREDITORS. BANK OF ISRAEL HAS
PRIMARY RESPONSIBILITY. IF BANK OF ISRAEL WANTS TO MOUNT
A RESCUE OPERATION AND REQUESTS BANK OF ENGLAND HELP, IT
WILL BE FORTHCOMING IN LIMITED WAY. LIQUIDATION APPEARS
LIKELY. END SUMMARY.

1. FOLLOWING UP ON REFTEL TREASURY REP CALLED ON RICHARDS
RODDY, NORTH CAROLINA NATIONAL BANK, WHO ALSO INVITED
OTHER LONDON BASED MEMBERS OF U.S. CREDITORS GROUP.
ROBERT VANDEN BOSCH, HARRIS TRUST AND SAVINGS BANK; R.E.
ROWTON, UNITED CALIFORNIA BANK; AND JOHN HARTWELL, EXECU-
TIVE VICE PRESIDENT OF UNITED CALIFORNIA, LOS ANGELES.

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PAGE 02 LONDON 13638 01 OF 03 181856Z

THEY REPEATED ARGUMENTS PARA 3 REFTEL, SAID TWELVE U.S.

AND TWO CANADIAN BANKS WERE OWED \$20 MILLION. (SPECIAL MANAGER PUT TOTAL CREDIT CLAIM AT \$100 MILLION.) RODDY SUPPLIED COPY OF MEMORANDUM GIVEN TO EL BIZIC, NEA/IAI, STATE AND COPIES OF NCNB CHAIRMAN STORR'S LETTER OF SEPTEMBER 23 TO FRB CHAIRMAN BURNS AND FRB GOVERNOR WALLICH'S REPLY OF SEPTEMBER 27 TO STORR. U.S. CREDITORS GROUP MEMBERS SAID OF U.S. BANKS ONLY NCNB HAS MADE PUBLIC ITS INVOLVEMENT IN FAILURE OF ISRAEL BRITISH BANK LTD. (IBBL) OTHER U.S. BANKS INVOLVED ARE TREATING POTENTIAL LOSSES AS CONFIDENTIAL, AT LEAST THUS FAR.

2. BANK OF ENGLAND (BOE) ATTITUDE DISCUSSED WITH GEORGE BLUNDEN, WHO IS IN CHARGE OF BANKING SUPERVISION. BLUNDEN SAID DIFFICULTIES OF LONDON SUB WERE CAUSED BY INSTRUCTIONS RECEIVED FROM THE IBBL PARENT IN TEL AVIV. IF THE BANK OF ISRAEL (BOI) DECIDES TO MAKE A GESTURE ON BEHALF OF LONDON CREDITORS, BANK OF ENGLAND WILL SUPPORT IT IN REASONABLE LIMITS, ON A CENTRAL BANK TO CENTRAL BANK BASIS, HELPING BOI TO FULFILL ITS OBLIGATIONS. ANY INITIATIVE MUST COME FROM THE BANK OF ISRAEL. ANY PRESSURE FROM THE U.S. SHOULD BE AIMED AT THE BANK OF ISRAEL, WITH WHICH BOE HAS RECENTLY HAD LENGTHY DISCUSSIONS. BLUNDEN REFUSED TO COMMENT ON MAGNITUDE OR PROPORTION OF ASSISTANCE BOE AND BOI MIGHT HAVE IN MIND.

3. BLUNDEN SAID IT IS HIGHLY UNLIKELY THAT ANY RESCUE OPERATION WILL LET THE U.S. BANKS INVOLVED OUT WITH 100 PERCENT PAYMENT OR ANYTHING CLOSE TO THAT. THERE IS STRONG EVIDENCE OF FRAUD. THE ASSETS CANNOT BE FULLY TRACED. SOME HAVE PASSED THROUGH LICHENSTEIN. QUOTE IT WOULD BE WRONG TO BE OPTIMISTIC ABOUT ANY AVAILABLE FUNDS IN CASE OF LIQUIDATION. UNQUOTE. THE MATTER IS IN THE COURTS IN ISRAEL AND THE U.K. BOE CANNOT SEE ANY TOTALLY SATISFACTORY SOLUTION, BUT IT IS MORE HOPEFUL OF A PARTIAL SOLUTION THAN IT WAS A FEW WEEKS AGO. VERY FEW DOMESTIC U.K. BANKS INVOLVED; GIVEN MANAGEMENT OF IBBL, THEY KNEW BETTER THAN TO GET INVOLVED.

4. FACT THAT IBBL IS WHOLLY OWNED ISRAEL SUB MEANS THAT PRIMARY RESPONSIBILITY FOR IT RESTS WITH BOI. BOE WILL CONFIDENTIAL

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PAGE 03 LONDON 13638 01 OF 03 181856Z

NOT ACCEPT LENDER OF LAST RESPONSIBILITY FOR A FOREIGN SUB. THIS IS ANALAGOUS TO ITS POSITION ON CONSORTIA BANKS (SEE LONDON 12423). NO ONE CAN ASSUME THAT BANK OF ENGLAND FUNDS OR U.K. RESERVES WILL BE USED TO SUPPORT A FOREIGN BANK AS A MATTER OF RIGHT. TREASURY REP'S IMPRESSION OF POINTS MADE BY BLUNDEN ARE THAT IN THIS CASE, (A) BANK OF ISRAEL MUST ACCEPT PRIMARY RESPONSIBILITY, (B) THE FACTS MUST BE ESTABLISHED, (C) THE OUTLINES OF A PAR-

TIAL ALBEIT NOT TOTALLY SATISFACTORY SOLUTION THEN CAN BE
DISCERNED, TAKING INTO ACCOUNT SUCH LIMITED ASSETS AS MAY

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PAGE 01 LONDON 13638 02 OF 03 181856Z

43

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 EUR-08 EB-03 SP-02 L-01 NSC-05

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C O N F I D E N T I A L SECTION 02 OF 03 LONDON 13638

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BE AVAILABLE, AND (D) IF BOI WANTS BOE TO HELP, BOE WILL
MAKE A CONTRIBUTION BUT IN LIMITED WAY ON CENTRAL BANK TO
CENTRAL BANK BASIS; NO TEARS WILL BE SHED FOR THE CREDITOR
BANKS INVOLVED.

5. ON RELATED POINT, U.S. BANKERS (PARA 1 ABOVE) HAD
NOTED THAT IBBL WAS FIRST AUTHORIZED BANK TO FAIL.
BLUNDEN RESPONDED TO THIS POINT SAYING AUTHORIZED BANK
STATUS IN UK TERMS MEANS ONLY THAT BANK HAS ASSURED BOE
THAT IT CAN CARRY OUT PROVISIONS OF EXCHANGE CONTROL ACT
AND THAT IT HAS COMPETENT FOREIGN EXCHANGE DEALERS. IT
DOES NOT MEAN THAT THE INSTITUTION IS LICENSED, GUARANTEED
OR INSPECTED BY BOE. (FOR BACKGROUND, SEE LONDON A-346,
APRIL 11, 1974, U.K. REGULATION OF FOREIGN BANKS.)

6. IN SEPARATE CONVERSATIONS, ALTHOUGH THEY ASKED THAT
THEIR VIEWS BE HELD CONFIDENTIAL BY U.S. GOVERNMENT AGEN-
CIES, SPECIAL MANAGER ECKMAN AND HIS DEPUTY WHEATLEY WERE
VERY OPEN. OVER THREE HOURS DISCUSSION, THEY SKETCHED
ENTIRE PROBLEM, FAMILY MANAGEMENT; RELATED COMPANIES;
MISSING ASSETS; FRAUD; BANK OF ISRAEL HAD NOT ACTED AS IT

SHOULD HAVE DONE VIS-A-VIS CREDITORS AND HAS FAILED TO CO-
OPERATE WITH SPECIAL MANAGER IN LONDON; FACT THAT BOI IT-
SELF HAS \$12.5 MILLION CLAIM ON IBBL; VERY
HIGH LEGAL COSTS AND DUBIOUS OUTCOME SHOULD SPECIAL MANA-
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PAGE 02 LONDON 13638 02 OF 03 181856Z

GER ATTEMPT TO SEEK LEGAL REDRESS IN ISRAELI COURTS.

7. STILL ON CONFIDENTIAL BASIS, THEY MADE AVAILABLE TEXT
OF PRICE WATERHOUSE SCHEME TO BRING RELIEF TO CREDITORS.
THIS WOULD HAVE INVOLVED USING IDENTIFIED IBBL ASSETS OF
\$10 MILLION (AMOUNT CURRENTLY AVAILABLE IN CLEAR ASSETS IS
TEN CENTS IN DOLLAR), CONTRIBUTION OF \$6 MILLION FROM
BOE, \$35 MILLION CONTRIBUTION FROM BOI OFFSET BY (A) UK
FAMILY ASSETS OF WILLIAMS ESTATE, LANDY AND BENSION FAMI-
LIES AND OTHER CONNECTED PERSONS AND (B) \$6 MILLION LOAN
FROM BOE TO BOI. THIS WOULD HAVE ALLOWED IBBL CREDITORS TO
RECEIVE 40 CENTS ON DOLLAR IMMEDIATELY; 10 CENTS AFTER ONE
YEAR; 7 CENTS AFTER TWO YEARS, TO TOTAL 57 CENTS ON THE
DOLLAR. PLAN IN ALL ITS DETAILS IS CONSIDERED TOO CONFIDENTIAL
TO BE DISCUSSED WITH CREDITORS, CERTAINLY PRIOR TO
AGREEMENT OF THOSE INVOLVED AND SUPPLYING FUNDS. MORE-
OVER, IT HAS BEEN REJECTED BECAUSE OF OPPOSITION FROM BOI.

8. SPECIAL MANAGERS SAID GOVERNOR OF BOI SANBAR VISITED
LONDON WEEKEND OCTOBER 12, HAD DISCUSSIONS WITH SPECIAL
MANAGERS AND WITH BOE OFFICIALS, POSSIBLY GOVERNOR BOE
RICHARDSON. WHEN ASKED, BLUNDEN OF BOE REFUSED TO ACKNOWLEDGE
SANBAR WAS HERE, BUT DID NOT DENY IT. IN WEEKEND
MEETINGS, A NEW PROPOSAL WAS DISCUSSED BETWEEN BOE AND BOI
UNDER WHICH IN SIMPLIFIED FORM WILLIAMS FAMILY WOULD
ASSIGN FAMILY ASSETS TO COMMON POT BETWEEN CREDITORS IN
LONDON AND ISRAEL, WITH BOI SUBROGATING CERTAIN OF ITS
CLAIMS IN ISRAEL, BUT NOT ON IBBL IN UK; WILLIAMS FAMILY
INSURANCE COMPANIES AND PROPERTY COMPANY STOCK WOULD BE
HELD ON BEHALF OF CREDITORS. IF AGREEMENT COULD BE REACHED
AMONG FAMILY AND CREDITORS ON THIS SCHEME, THE 2 CENTRAL
BANKS WOULD THEN CONSIDER WHAT CONTRIBUTION THEY WOULD
MAKE, BUT WITH NO RPT NO EXPECTATION OF COMPLETE 100 PER-
CENT PAYMENT.

9. OTHER SELECTED POINTS MADE BY ECKMAN AND WHEATLEY ARE
THAT THEY DO NOT EXPECT BOE TO PUT UP OVER \$5 MILLION
UNDER ANY CIRCUMSTANCES; AT BEST, THEY HAVE NO REASON TO
SUSPECT THAT BOI WILL GO BEYOND \$25 MILLION, IF IT DOES

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PAGE 01 LONDON 13638 03 OF 03 181856Z

44

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ANYTHING. TWO OTHER PRIVATE RESCUE ATTEMPTS DISCUSSED WITH SPECIAL MANAGERS AND CENTRAL BANKS HAVE COME TO NAUGHT; FULL LIST OF CREDITORS HAS NOT BEEN MADE PUBLIC, THERE ARE TWO OR THREE SMALL EUROPEAN BANKS INVOLVED THAT ARE OWED A SIZABLE PORTION OF THEIR RESERVES, THESE COULD GO UNDER IF THEIR INVOLVEMENT WERE KNOWN. IBBL SOLICITED DEPOSITS FROM U.S. REGIONAL BANKS AT INTEREST RATES HIGH ENOUGH TO BE TEMPTING, AND QUOTE THERE IS A BIT OF GREED IN ALL OF US UNQUOTE. THERE ARE ALLEGATIONS THAT LARGER U.S. BANKS WERE WARNED OFF, OR ELSE KNEW BETTER. SOME LARGER U.S. BANKS SIMPLY DID NOT DEAL WITH IBBL.

10. WHEREAS LIQUIDATION HAS BEEN POSTPONED PER REFTTEL, WHEATLEY AT ONE POINT QUESTIONED AFTER WEEKEND MEETINGS BETWEEN CENTRAL BANKS, IF THERE IS ANY LONGER A VALID REASON FOR CONTINUED POSTPONEMENT OF LIQUIDATION.

11. MATERIAL IN PARAS 6 - 10 ABOVE CONSIDERED CONFIDENTIAL AND PRIVILEGED BY SPECIAL MANAGERS, GIVEN FOR INFORMATION ONLY TO U.S. GOVERNMENT OFFICIALS ON NEED TO KNOW BASIS. WHEATLEY NOTED FDIC IS PROBABLY NOW A U.S. CREDITOR AS WELL, SINCE FRANKLIN'S FAILURE. HE SAID HE WOULD BE AS OPEN AS POSSIBLE WITH U.S. CREDITORS IN SUPPLYING INFORMATION. THEY SHOULD NOT BE RELUCTANT TO SEEK IT. HOWEVER, HE HAS DUTY TO BE EVENHANDED WITH

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PAGE 02 LONDON 13638 03 OF 03 181856Z

ALL CREDITORS. BECAUSE OF SENSITIVE NATURE OF DETAILS OF PRICE WATERHOUSE'S OWN SCHEME, INCLUDING PROPOSED DISPOSITION OF ASSETS AND CENTRAL BANK INVOLVEMENT, HE COULD NOT DIVULGE DETAILS. NOW THAT PRICE WATERHOUSE PLAN HAS BEEN REJECTED, AND GIVEN UNCERTAIN OUTLOOK FOR FUTURE HELP FROM TWO CENTRAL BANKS, HE HOPED FOR AN EARLY MEETING OF ALL CREDITORS TO DISCUSS MOVING AHEAD ON LIQUIDATION.

12. COMMENT: FROM HERE, IT APPEARS THAT ATTITUDE OF GOVERNOR SANBAR AND BOI IS CRUCIAL AND THE KEY TO ANY SETTLEMENT.

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Message Attributes

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